Income, Gift, and Estate Tax Update

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Individual Income Tax Rates p. 1

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>35% Rate</th>
<th>39.6% Rate</th>
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<tbody>
<tr>
<td>Single</td>
<td>$398,350</td>
<td>$400,000</td>
</tr>
<tr>
<td>Head of household</td>
<td>$398,350</td>
<td>$425,000</td>
</tr>
<tr>
<td>Married filing jointly</td>
<td>$398,350</td>
<td>$450,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$199,175</td>
<td>$225,000</td>
</tr>
<tr>
<td>Estates and trusts</td>
<td>N/A</td>
<td>$11,950</td>
</tr>
</tbody>
</table>

Marriage Penalty Relief p. 1

- 10% and 15% income tax brackets are same for single and MFS
- Example 5.3: No tax increase if total taxable income < $72,500 and neither spouse was HoH before marriage
- No parity in higher tax brackets
- Some couples get marriage bonus

Capital Gains Tax Rates pp. 1-2

- 0% rate if income would otherwise be taxed at 15% or lower rate for ordinary income
- 15% rate applies if total income does not exceed 35% tax bracket
- 20% rate applies if income would otherwise be taxed at 39.6%
- Qualified dividends taxed at rates for capital gains

Alternative Minimum Tax (AMT) pp. 2-3

- Rates are still 26% and 28%, but threshold for 28% rate is adjusted for inflation
- Exemption amounts are increased (Figure 2), and COLA will apply
- Nonrefundable credits can reduce regular income tax plus AMT
- 7% preference for § 1202 stock

Net Investment Income Tax (NIIT) pp. 3-4

- 3.8% additional tax on investment income of higher income taxpayers
- NIIT applies to lesser of excess MAGI or net investment income
- MAGI adjustment is adding back excluded foreign-source income
**Net Investment Income**

Include:
- Interest
- Dividends
- Annuities
- Royalties
- Rent
- Passive business income
- Certain trading income
- Gain from nonbusiness assets

Net Investment Income Not included:
- Wages and unemployment compensation
- Active business income
- Social security benefits (SE income)
- Alimony
- Tax exempt interest
- Distributions from retirement plans

**Example 1**
- Single, $270,000 MAGI
- $90,000 net investment income
- NIIT applies to $70,000 excess MAGI ($270,000 − $200,000)
- NIIT is $2,660 (3.8% × $70,000)

**Additional Medicare Tax**
- Earned income includes wages and self-employment income
- 0.9% additional tax applies to higher-earning taxpayers
- No employer share of this tax

**Earned Income Thresholds for Additional Medicare Tax**
Additional Medicare Tax on Wages p. 5
- Combine wages on joint return
- Do not combine FICA/RRTA wages
- Withholding requirement begins at $200,000 for all taxpayers
- Common paymaster treated as just one employer
- Individual owes tax not withheld

Individual Taxpayer Deductions p. 6

Itemized deductions phased out p. 6
- Not subject to phase out
  - Medical expenses
  - Investment interest
  - Nonbusiness casualty and theft losses
  - Gambling losses
- The rest are phased out by the lesser of:
  - 3% of excess AGI
  - 80% of itemized deductions subject to phaseout

Standard and Itemized Deductions pp. 6-7
- Marriage penalty relief equalizes standard deductions
- 2013 is last year for state and local sales tax deduction
- Mortgage insurance premium deduction extended through 2013
- 100%/50% of AGI limits for easement deductions extended through 2013

Business Deductions pp. 7-8
- Higher I.R.C. § 179 ceiling extended through 2013
- 50% additional first-year depreciation allowed in 2013
- Educator classroom supplies deduction

Education Benefits pp. 8-9
- Tuition deduction ends in 2013
- 60-month limit on student loan interest deduction repealed
- Permanent
  - $2,000 limit for Coverdell accounts
  - $5,250 exclusion for employer benefit
  - Health professions grant exclusion
### Individual Taxpayer Credits
pp. 9-10
- Adoption credit is permanent
- $1,000 child tax credit is permanent
- $3,000 base and 35% maximum rate for dependent care credit are permanent
- EIC simplification rules are permanent
- American opportunity education credit extended through 2017
- Residential energy credit extended through 2013

### Exclusions from Gross Income
pp. 11-12
- **Charitable donations of IRAs**
  - Direct IRA transfer to charity allowed in 2013
  - December 2012 distributions could be donated in January 2013
  - January 2013 transfers (by election)
    - Treated as 2012 RMD
    - Apply 2012 $100,000 charitable limit

### Exclusions from Gross Income
pp. 11-12
- Mortgage debt exception to cancellation of debt income extended through 2013
- Retirement plans may permit in-service rollovers to Roth account, even if actual distribution is not yet allowed

### Estate and Gift Taxes
pp. 12-13
- 2010-2012 rules now permanent
- Unified credit covers $5,000,000 (indexed for inflation) of cumulative taxable transfers
- Surviving spouse can elect to add deceased spouse’s unused amount

### Estate and Gift Taxes
p. 13
- Top tax rate is now 40% (Figure 7 shows new 37%, 39%, and 40% rates)
- Credit for state death taxes replaced by deduction (affects state laws also)
- Closely held business may have up to 45 owners for estate to qualify for installment payment of estate taxes

### Defense of Marriage Act (DOMA)
pp. 13-14
- All legal same-sex marriages are recognized for federal tax purposes
- Current domicile does not matter
- Civil unions are not marriages
- Same-sex spouses must file all returns after September 16, 2013, as married persons
Claims for Refunds  p. 14

- Usual statute of limitations applies
- Prior year amended returns are optional

Questions?

Affordable Care Act  pp. 15-22

- Insurance premium rebates
- 2014 health insurance premium credit and shared responsibility payments

Medical Loss Ratio Rebates  p. 15

- Insurers must spend 80%-85% of premiums on health care
- Insurers must pay rebates if goal is not met
- Did recipient receive tax benefit from deducting premium?

Changes for 2014  pp. 15-22

- Increased availability of insurance to individuals with pre-existing conditions
- Marketplaces provide choices
- Coverage mandatory for most people
- Subsidies available for many people
- Small business credit enhanced, limited
- Employer penalty delayed until 2015

Affordable Insurance Exchanges  p. 15

- Most individuals may use exchange, even if employer offers insurance
- www.healthcare.gov
- Must be U.S. citizen or legal resident, residing in U.S., and not in prison
- Employers must issue notices (see DOL/EBSA website for samples)
<table>
<thead>
<tr>
<th>Small Business Health Options Program (SHOP)</th>
<th>p. 15</th>
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<tbody>
<tr>
<td>• Small businesses can offer workers more health plan choices</td>
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<tr>
<td>• When fully implemented, employer will make single payment instead of separate payments to each insurer</td>
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<tr>
<td>• State determines size limit for small employer (50? 100?)</td>
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<thead>
<tr>
<th>Individual Tax Credit (Premium Subsidy)</th>
<th>pp. 15-18</th>
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<tr>
<td>• Refundable credit available in advance as premium subsidy</td>
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<tr>
<td>• Exchange determines eligibility</td>
<td></td>
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<tr>
<td>• Income 100% to 400% of poverty level for family size (see Figure 8)</td>
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<tr>
<td>• Cannot be dependent</td>
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<td>• If married, must file joint return</td>
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<tr>
<th>Medicaid Issue</th>
<th>p. 16</th>
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<tr>
<td>• Individual who is eligible for Medicaid is not required to buy insurance</td>
<td></td>
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<tr>
<td>• Individual with income below poverty level is not eligible for premium credit</td>
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<tr>
<td>• State rules vary; low-income individual may not be eligible for Medicaid</td>
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<thead>
<tr>
<th>Premium Assistance Computation</th>
<th>pp. 16-17</th>
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<tr>
<td>• Each exchange has benchmark (silver) plan; cost sets a ceiling for assistance</td>
<td></td>
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<tr>
<td>• Figure household income as percentage of poverty level</td>
<td></td>
</tr>
<tr>
<td>• Calculate an applicable percentage and multiply it times household income</td>
<td></td>
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<tr>
<td>• Compare result with premium cost</td>
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<tr>
<th>Reconciliation</th>
<th>pp. 17-18</th>
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<tr>
<td>• 2014 tax returns filed in 2015</td>
<td></td>
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<tr>
<td>• If actual credit exceeds advances, difference is refundable credit</td>
<td></td>
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<tr>
<td>• If advances exceed actual credit, difference is additional tax liability</td>
<td></td>
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<tr>
<td>• Figure 10 shows repayment caps</td>
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<tr>
<th>Individual Shared Responsibility Payment</th>
<th>pp. 18-22</th>
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<tr>
<td>• Most taxpayers are required to have minimum essential coverage each month</td>
<td></td>
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<tr>
<td>• If not exempt from requirement, individual will owe an additional tax (shared responsibility payment)</td>
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Exemptions pp. 18-19

- Membership-based (religious, tribal)
- Financial status (8% affordability threshold, income < tax return filing requirement, hardship)
- Other (short coverage gap, not lawfully present, in prison)

Individual Shared Responsibility Payment (ISRP) p. 20

- Calculated on monthly basis, with annual maximum amount
- Flat dollar amount (with its own cap) is per noncovered person who is not exempt (child under 18 = ½ person)
- Income percentage applies to household income minus applicable tax return filing threshold

Example 2 p. 21

- No spouse or dependents, $120,000 income, $12,000 filing requirement, $5,000 plan cost
- 2016 flat dollar amount is $695
- Income = $108,000 > filing requirement
- 2.5% × $108,000 = $2,700 (12 months)
- $695 < $2,700 < $5,000

Example 3 pp. 21-22

- Married, 3 children (2 under 18), $120,000 income, $24,000 filing requirement, $20,000 plan cost
- Dollar cap is $2,085 ($695 × 3)
- Income > filing requirement = $96,000
- 2.5% × $96,000 = $2,400 (12 months)
- $2,085 < $2,400 < $20,000
- Q1: 2014 would be 1% ($960 > $855)

Paying the Penalty p. 22

- Report on tax return
- Generally treated as assessable penalty, such as trust fund penalty
- IRS can issue demand and notice
- No lien or levy
- No criminal penalty

Questions?
Wisconsin income based on IRC provisions as of December 31, 2010
- January 1, 2013 – same as federal for:
  - Rollover to Roth IRA
  - Installment method for accrual basis taxpayers
  - 10% floor on medical expense deduction
  - 20% penalty on early HSA/MSA distributions

IRC provisions still not adopted by Wisconsin
- Discharge of debt on principle residence
- Deduction for educator expenses
- Treatment of mortgage insurance premiums as interest

Income Tax Rates Reduced

<table>
<thead>
<tr>
<th>Rate</th>
<th>Bottom Rate</th>
<th>2nd Rate</th>
<th>3rd Rate</th>
<th>4th Rate</th>
<th>Top Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before</td>
<td>4.60%</td>
<td>6.15%</td>
<td>6.50%</td>
<td>6.75%</td>
<td>7.75%</td>
</tr>
<tr>
<td>After</td>
<td>4.40%</td>
<td>5.84%</td>
<td>6.27%</td>
<td>7.65%</td>
<td></td>
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</tbody>
</table>

Farming loss add-back eliminated
- Higher education tuition subtraction phase-out indexed for inflation
- New private school tuition subtraction
- Depreciation and Section 179 Expense
- Adjustment for basis differences
- Manufacturing and agricultural credit

Questions?